This record is a partial extract of the original cable. The full text of the original cable is not available.

220717Z Oct 04

UNCLAS HARARE 001758

SIPDIS

STATE FOR AF/S
USDOC FOR AMANDA HILLIGAS
TREASURY FOR OREN WYCHE-SHAW
PASS USTR FLORIZELLE LISER
STATE PASS USAID FOR MARJORIE COPSON

SENSITIVE

¶E. O. 12958: N/A
TAGS: ECON ETRD EINV PGOV ZI
SUBJECT: Heinz's Burdensome Subsidiary

Sensitive but unclassified.

Summary

¶1. (SBU) Olivine, Heinz's Zimbabwe subsidiary, is barely staying afloat, according to its top official. Unable to freely convert its zimdollar earnings into foreign exchange for needed imports, the firm is operating at 40 percent capacity. Meanwhile, South African manufacturers of cooking oil, Olivine's major product in Zimbabwe, are taking domestic market-share.

Coping with the Forex Auctions

¶2. (SBU) Olivine remains an important company in Zimbabwe, partly due to its position as the largest local manufacturer of cooking oil. Despite its strong domestic presence, however, Managing Director Ian McKensie tells us he now spends hours each day trying to cope with foreign currency shortages, what he calls "an increasing workload for less and less product." While he continually lobbies the Reserve Bank of Zimbabwe (RBZ) for access to foreign exchange through the auction system, McKensie complains that RBZ officials regularly cancel meetings after keeping him waiting for hours. Recently, Olivine required US$ 1 million worth of crude oil for its processing machinery. Since the RBZ has told importers it has too little forex to entertain auction bids of US$ 1 million, McKensie said Olivine had to submit bids of US$ 200,000 at a series of successive auctions spanning six weeks. Although ultimately unsuccessful in obtaining the needed forex, it took approximately 12 auctions and countless hours of staff-time. Each bid meant a new set of documents and research into the probable exchange rate band on a given day. Recent bid spreads have been as narrow as half a cent of a zimdollar (about 1/11,000 of a U.S. cent), making it extremely difficult for a bidder to win with any frequency.

¶3. (SBU) Lately, the Olivine MD has a new headache: cooking oil from South Africa is selling more cheaply than his own. Even though RBZ officials assure McKensie they have not allocated foreign exchange for these imports, South African cooking oil is nonetheless widely available in supermarkets.

Comment

¶4. (SBU) Despite the firm's woes, Olivine is fortunate to even qualify for limited amounts of foreign exchange at RBZ auctions. The RBZ currently sells forex at a 42 percent discount to the parallel market rate (Z$5600 versus 8000:US$). But even with this exchange rate advantage over foreign producers (whose products almost always enter the country at the parallel rate), Olivine cannot overcome Zimbabwe's burgeoning costs and inefficiencies, including: a) intrusive RBZ oversight, b) wages for skilled tradesmen approaching those in South Africa, c) more expensive and irregular fuel and electricity supplies than elsewhere in the region, and d) diminishing domestic production inputs (e.g., Zimbabwe's sunflower crop, the most common source of local cooking oil, has dropped from 160,000 to 60,000 tons since the Government began expropriating commercial farms for redistribution). It is a daunting business climate for local producers, but an opportunity for foreign producers to gain market-share in Zimbabwe.

Dell